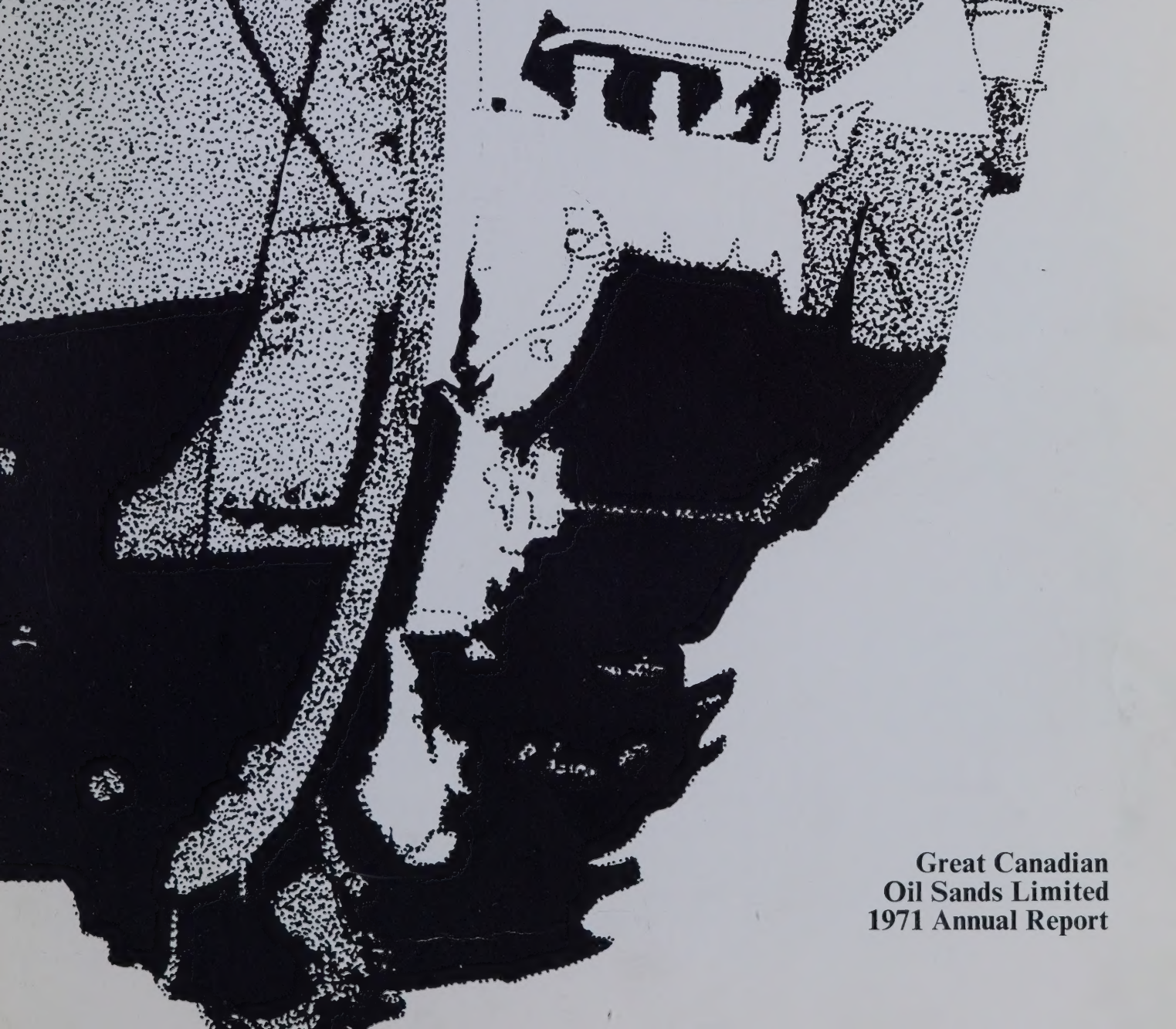


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# FIGURES



Great Canadian  
Oil Sands Limited  
1971 Annual Report

## Report of the directors to the shareholders and to the employees

1

### **Directors** (as at December 31, 1971)

Alex E. Barron  
Darwin W. Ferguson  
Kenneth F. Heddon  
Walter C. Huffman  
Reginald D. Humphreys  
Robert McClements, Jr.  
W. Harold Rea  
James S. Roe  
J. Grant Spratt  
Donald J. Wilkins

For your Company, 1971 can be characterized as a year of significant progress, continuing the strong trend toward achieving sustained production at authorized levels.

Output of synthetic crude totalled 15,400,000 barrels, a 29 percent improvement over 1970 when production was 11,950,000 barrels. Daily average production for the year was 42,200 barrels compared to 32,700 barrels in 1970. Authorized output is 45,000 barrels daily.

Your Company incurred a loss in 1971 of \$8,246,000 which is significantly less than the \$16,028,000 loss experienced in 1970. Revenues totalled \$50,724,000 compared with revenues of \$34,739,000 in the previous year.

The financial progress made in 1971 is attributable mainly to the higher level of production, brought about by improved plant performance; a 25-cent-per-barrel general increase in Canadian crude oil prices, effective in December, 1970; the increase, effective January 1, 1971, in the price paid for synthetic crude under the Company's long-term sale of product contracts; and reduced royalties.

On the other hand, year-end results were adversely affected by an extensive, planned maintenance shutdown during September and October which incurred additional costs and resulted in the loss of a month's production. The reconditioning involved all facilities and the plant is considered to be in good condition and capable of sustained operations.

The new overburden removal program was implemented by year-end. Seventeen 150-ton trucks and six 15-cubic yard front-end loaders were purchased to replace leased scrapers. A large, modern maintenance facility was constructed for servicing the new vehicles and other mobile equipment. As well, to help improve winter efficiency, a separate, heated vehicle storage building was erected.

To increase tar sand mining capability, a smaller, previously used, bucketwheel excavator was purchased. At year end, its reconditioning and assembly were almost complete. Four of the new 150-ton trucks also have been assigned to supplementary tar sand mining.

The past year saw continuing modifications made to the extraction plant with a resulting increase in capacity. Studies also were made on ways of further improving bitumen recovery rates. These studies are being carried on into 1972.

Capital outlays during the year totalled \$22,800,000 including \$13,500,000 for the new overburden removal and supplementary mining facilities. The funds required by the Company during 1971 were provided by the parent Sun Oil Company. GCOS received from Sun Oil Company \$14,700,000 for non-cumulative preferred shares of the Company and a loan of \$9,400,000. The Company has learned that it will receive in 1972 a remission of \$6,000,000 Federal Sales Tax, being a portion of the sales taxes included in the price of production machinery acquired by the Company. This remission, which is not reflected in the financial statements for 1971, will be credited against the cost of fixed assets upon receipt.

Despite the good progress made last year your Company still faces some challenging problems. By way of example, the rugged northern environment has resulted in high operating and maintenance costs. Conveyor belts and other equipment are more prone to damage when temperatures drop to 40 or 50 degrees below zero. Moreover, men on maintenance work cannot perform at maximum efficiency in sub-zero temperatures. The Company continues in its

efforts to solve these problems with encouraging results.

As every segment of the economy has been affected by inflation, so has GCOS. The cost of materials, equipment and services has risen, as have the wages of our employees. On the other hand, Canadian crude oil prices have been virtually at a standstill. The 25-cent-per-barrel increase of December, 1970 has been the only general increase in the price of Canadian crude oil in more than a decade. To combat this squeeze on our resources, GCOS continues to try to improve its operating efficiency.

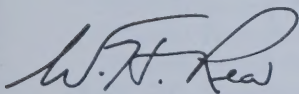
During 1971 your Company increased its investment in employee housing at Fort McMurray. An additional 122 housing units were approved for construction, of which 50 were completed and 20 were under construction by year-end. Plans call for additional units to be completed in 1972. The housing activities during the year included the opening up of an attractive 240-lot mobile home subdivision.

Fort McMurray continues to make excellent progress in its development. Many employees participate in the activities of the community through service on the Town Board, the Hospital Board, the School Board and other civic groups. Through Alberta New Start and the Alberta Vocational Centre, the Indian and Metis populations and the community are becoming more fully integrated. GCOS participates in these programs.

Looking to the years ahead, it seems clear that the Athabasca Tar Sands will play an important role in supplying future energy needs. The demand for energy is expanding substantially and as reserves of conventional crude oil become more difficult and costly to find, the Tar Sands grow in importance. It is appropriate to point out that the era of low cost energy is just about over. Conventional crude oil reserves in the Western Hemisphere, according to some experts, will be seriously depleted by the end of this decade. While substantial new reserves of conventional crude will undoubtedly be found, growing energy demands will make it vital to develop the Tar Sands. Such development, however, will require increased prices and realistic royalty treatment in order to provide an adequate return on the huge amounts of capital required.

Your Company is looking down the road with special care in order to determine how we can better contribute to satisfying these expanding energy requirements. In the light of these circumstances and with a view to obtaining the most efficient utilization of present facilities, an application will be made to the Alberta Energy Resources Conservation Board for an increase in the authorized level of production, presently 45,000 barrels per day. While the magnitude of the increase remains imprecise at this time, the plant has displayed the capability of producing as high as 55,000 barrels per day on a sustained and balanced basis.

Once again, a sincere word of tribute is due our employees who continue each year to improve their skills and develop maturity as a cohesive workforce. While the Company supplied the facilities, our people put them to meaningful use to bring forth the gains made in 1971. Your Company is deeply appreciative of their efforts.



W. Harold Rea,  
*Chairman of the Board*



K. F. Heddon,  
*President*

# 2

**Officers (as at December 31, 1971)**

W. Harold Rea  
*Chairman of the Board*  
Kenneth F. Heddon  
*President*  
Reginald D. Humphreys  
*Vice-President and General Manager*  
Darwin W. Ferguson  
*Vice-President*  
Walter C. Huffman  
*Vice-President*  
Ardagh S. Kingsmill  
*Secretary*  
James S. Roe  
*Treasurer*  
Wilfred C. Blood  
*Comptroller*  
Maurice B. Parmelee  
*Assistant Treasurer*  
Anthony A. L. Wright  
*Assistant Treasurer and Assistant Secretary*

## Consolidated Balance Sheet

December 31, 1971

(with comparative figures at December 31, 1970)

| <i>Assets</i>  | <u>1971</u>          | <u>1970</u>          |
|--|----------------------|----------------------|
| <b>Current:</b>  |                      |                      |
| Cash .....   | \$ 220,000           | \$ 172,000           |
| Accounts receivable  |                      |                      |
| Trade (note 2) .....   | 4,483,000            | 2,763,000            |
| Other .....  | 195,000              | 826,000              |
| Inventory of finished product, at estimated net realizable value | 1,067,000            | 1,267,000            |
| Inventory of material and supplies, at cost (note 3) .....       | 6,100,000            | 6,938,000            |
| Prepaid charges .....  | 1,038,000            | 1,308,000            |
| Total current assets .....                                       | <u>13,103,000</u>    | <u>13,274,000</u>    |
| <b>Plant facilities and housing (note 4):</b>                    |                      |                      |
| Plant, buildings and equipment, at cost .....                    | 206,216,000          | 186,288,000          |
| Less accumulated depreciation .....                              | 18,127,000           | 11,825,000           |
|  | <u>188,089,000</u>   | <u>174,463,000</u>   |
| Housing —  |                      |                      |
| Rental housing units, at cost (less accumulated depreciation     |                      |                      |
| 1971 — \$1,207,000; 1970 — \$1,431,000) .....                    | 488,000              | 1,886,000            |
| Housing under construction and serviced lots, at cost .....      | 1,546,000            | 1,119,000            |
| Housing units to be sold under long-term instalment sale         |                      |                      |
| agreements with employees, at the lower of cost or               |                      |                      |
| selling price .....  | 425,000              | 287,000              |
| Accounts receivable under long-term instalment sale agree-       |                      |                      |
| ments, for housing units sold to employees (note 7) .....        | 10,770,000           | 6,995,000            |
| Total plant facilities and housing .....                         | <u>201,318,000</u>   | <u>184,750,000</u>   |
| <b>Deferred costs (note 4):</b>                                  |                      |                      |
| Deferred development, preproduction and start-up costs, less     |                      |                      |
| write-offs and amortization .....                                | 62,443,000           | 64,374,000           |
| Deferred overburden removal (stripping) costs .....              | 16,174,000           | 14,113,000           |
| Total deferred costs .....                                       | <u>78,617,000</u>    | <u>78,487,000</u>    |
| <br>On behalf of the Board:                                      |                      |                      |
| W. H. Rea, Director  |                      |                      |
| J. S. Roe, Director  |                      |                      |
|  | <u>\$293,038,000</u> | <u>\$276,511,000</u> |

(See accompanying notes to financial statements)

| <i>Liabilities</i>  | <u>1971</u>          | <u>1970</u>          |
|---|----------------------|----------------------|
| <b>Current:</b>   |                      |                      |
| Accounts payable and accrued charges (note 2) .....   | \$ 7,490,000         | \$ 6,281,000         |
| 5¾ % notes due within one year (U.S. \$2,000,000) at current<br>exchange rates .....  | 2,005,000            | 2,040,000            |
| 4% demand loan payable to Sun Oil Company .....   | 9,400,000            | —                    |
| Total current liabilities .....   | <u>18,895,000</u>    | <u>8,321,000</u>     |
| <b>Non-current (note 5):</b>  |                      |                      |
| 6% unsecured debentures (Alberta issue) due May 15, 1975 .....  | 12,364,000           | 12,364,000           |
| 5¾ % notes due July 1, 1991 (1971 — U.S. \$46,000,000;<br>1970 — U.S. \$48,000,000) translated at exchange rates<br>prevailing at date of issue ..... | 49,468,000           | 51,619,000           |
| 6¼ % - 9½ % mortgages payable on houses sold and to be<br>sold and rental housing units (repayable over terms up to<br>25 years) .....                | 8,359,000            | 6,710,000            |
| Total non-current liabilities .....   | <u>70,191,000</u>    | <u>70,693,000</u>    |
| Total liabilities .....   | <u>89,086,000</u>    | <u>79,014,000</u>    |
| <b>Shareholders' Equity</b>   |                      |                      |
| <b>Capital (note 6):</b>  |                      |                      |
| Authorized —  |                      |                      |
| 2,000,000 Voting Preferred Shares of \$100 par value<br>each, consisting of:  |                      |                      |
| 500,000 First Preferred Shares  |                      |                      |
| 500,000 Second Preferred Shares   |                      |                      |
| 450,000 Third Preferred Shares  |                      |                      |
| 550,000 Fourth Preferred Shares,<br>issuable in series  |                      |                      |
| 35,000,000 Common Shares without nominal or par value   |                      |                      |
| Issued —  |                      |                      |
| 7% Non-Cumulative Redeemable (at par) Preferred Shares  |                      |                      |
| 500,000 First Preferred Shares  | 50,000,000           | 50,000,000           |
| 500,000 Second Preferred Shares   | 50,000,000           | 50,000,000           |
| 450,000 Third Preferred Shares  | 45,000,000           | 45,000,000           |
| 200,000 Fourth Preferred Shares, Series A   | 20,000,000           | —                    |
| 28,495,761 Common Shares (1970 — 28,495,731 shares)   | 126,198,000          | 126,197,000          |
| Subscription payments received for fourth preferred shares....  | —                    | 5,300,000            |
|   | <u>291,198,000</u>   | <u>276,497,000</u>   |
| <b>Deficit</b> .....  | <u>(87,246,000)</u>  | <u>(79,000,000)</u>  |
| Total shareholders' equity .....  | <u>203,952,000</u>   | <u>197,497,000</u>   |
|   | <u>\$293,038,000</u> | <u>\$276,511,000</u> |

(See accompanying notes to financial statements)

**Consolidated statements of income and deficit**

For the year ended December 31, 1971

(with comparative figures for 1970)

|  | <u>1971</u>         | <u>1970</u>         |
|--|---------------------|---------------------|
| <b>Income</b>  |                     |                     |
| <b>Revenue:</b>  |                     |                     |
| Value of synthetic crude and other products produced for sale....            | <u>\$50,724,000</u> | <u>\$34,739,000</u> |
| <b>Costs and expenses:</b>   |                     |                     |
| Costs, operating, administrative and general expenses .....                  | 46,981,000          | 36,307,000          |
| Amortization of deferred development, preproduction and start-up costs ..... | 1,931,000           | 1,498,000           |
| Depreciation .....   | 6,463,000           | 4,931,000           |
| Interest —   |                     |                     |
| On bank loans and short-term notes .....                                     | —                   | 4,351,000           |
| On long-term notes and debentures .....                                      | 3,595,000           | 3,680,000           |
|  | <u>58,970,000</u>   | <u>50,767,000</u>   |
| <b>Net loss for the year</b> .....   | <u>\$ 8,246,000</u> | <u>\$16,028,000</u> |
| Net loss per common share (note 9) .....                                     | <u>\$0.29</u>       | <u>\$0.97</u>       |
| <b>Deficit</b>   |                     |                     |
| Balance, January 1 .....   | \$79,000,000        | \$62,972,000        |
| Net loss for the year .....  | 8,246,000           | 16,028,000          |
| Balance, December 31 .....   | <u>\$87,246,000</u> | <u>\$79,000,000</u> |

(See accompanying notes to financial statements)

**Auditors' Report**

To the Shareholders of  
Great Canadian Oil Sands Limited:

We have examined the consolidated balance sheet of Great Canadian Oil Sands Limited and its subsidiary as at December 31, 1971 and the consolidated statement of income and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Canada,  
January 20, 1972.

CLARKSON, GORDON & CO.  
Chartered Accountants

Great Canadian Oil Sands Limited

**Consolidated statement of changes in financial position**

For the year ended December 31, 1971

(with comparative figures for 1970)

|  | 1971                   | 1970                 |
|--|------------------------|----------------------|
| <b>Source of funds:</b>  |                        |                      |
| From operations —  |                        |                      |
| Income for the year (before charges for depreciation and amortization of \$8,394,000 which did not involve the use of funds during the year) ..... | \$ 148,000             | —                    |
| Subscription payments received for fourth preferred shares....   | 14,700,000             | \$ 5,300,000         |
| Issue of common shares .....   | —                      | 100,125,000          |
| Mortgages on houses (net) .....  | 1,649,000              | 98,000               |
|  | <u>16,497,000</u>      | <u>105,523,000</u>   |
| <b>Application of funds:</b>   |                        |                      |
| To operations —  |                        |                      |
| Loss for the year (before charges for depreciation and amortization of \$6,429,000 which did not involve the use of funds during the year) .....   | —                      | 9,599,000            |
| 5¾ % notes maturing within one year .....  | 2,150,000              | 2,150,000            |
| Plant facilities and housing .....   | 22,756,000             | 5,902,000            |
| Deferred overburden removal costs (net) .....  | 1,523,000              | 944,000              |
| Inventory reclassified to fixed assets (note 3) .....  | 813,000                | —                    |
| Reduction in short-term notes to be refinanced .....   | —                      | 62,850,000           |
|  | <u>27,242,000</u>      | <u>81,445,000</u>    |
| Increase (decrease) in working capital .....   | <u>\$ (10,745,000)</u> | <u>\$ 24,078,000</u> |
| <b>Changes in components of working capital:</b>   |                        |                      |
| Increase (decrease) in current assets —  |                        |                      |
| Cash .....   | \$ 48,000              | \$ (29,000)          |
| Accounts receivable — trade .....  | 1,720,000              | 807,000              |
| — other .....  | (631,000)              | 185,000              |
| Inventory of finished product .....  | (200,000)              | (35,000)             |
| Inventory of materials and supplies .....  | (838,000)              | 6,389,000            |
| Prepaid charges .....  | (270,000)              | (1,322,000)          |
|  | <u>(171,000)</u>       | <u>5,995,000</u>     |
| Increase (decrease) in current liabilities —   |                        |                      |
| Accounts payable and accrued charges .....   | 1,209,000              | 927,000              |
| 5¾ % notes due within one year .....   | (35,000)               | 2,040,000            |
| Bank loans .....   | —                      | (16,050,000)         |
| Notes payable to affiliated companies .....  | 9,400,000              | (5,000,000)          |
|  | <u>\$ (10,745,000)</u> | <u>\$ 24,078,000</u> |

(See accompanying notes to financial statements)

**Notes to consolidated financial statements**

December 31, 1971

**1. Basis of statement presentation**

The accompanying financial statements are prepared on a consolidated basis to include the accounts of Great Canadian Oil Sands Supply Limited, a wholly-owned subsidiary.

**2. Accounts with affiliated companies**

Included in accounts receivable and accounts payable are the following accounts receivable from, or payable to, Sun Oil Company (parent company) and its affiliates:

|  |             |
|--|-------------|
| Accounts receivable .....                  | \$2,253,000 |
| Accounts payable and accrued charges ..... | \$ 526,000  |

**3. Inventory of materials and supplies**

During 1971 the company carried out a detailed analysis of the inventory of materials and supplies to determine the portion thereof represented by spare parts being maintained for key pieces of production machinery. As a result spare parts valued at \$813,000 have been reclassified from current assets to fixed assets at December 31, 1971. A provision of \$1,500,000 was also made during 1971 to cover the cost of items which may be surplus or obsolete.

**4. Depreciation of plant facilities and housing and amortization of deferred costs**

The company's productive facilities are being depreciated using a unit of production method based on estimated reserves. Furniture and fixtures and automotive equipment are being depreciated over their estimated useful life periods ranging from three to ten years. Rental housing units are being depreciated over five years (trailers) and twenty-five years (buildings). Deferred development, preproduction and start-up costs are being amortized against income using a unit of production method based on estimated reserves. Deferred overburden removal (stripping) costs are being charged to production on the basis of the area actually mined.

**5. Non-current liabilities****(a) 6% unsecured debentures (Alberta issue):**

These debentures, which mature on May 15, 1975, comprise the following:

|  |                     |
|--|---------------------|
| Debentures which are partially convertible (of which \$3,733,500 are held by Sun Oil Company Limited) .. | \$12,137,800        |
| Debentures in respect of which the partial conversion privilege has been exercised .....                 | 225,828             |
|  | <u>\$12,363,628</u> |

Subject to certain terms and conditions, the partially convertible debentures may, at any time before May 1, 1975, be converted into fully paid and non-assessable shares of the company on the following basis, that is, with respect to each \$100 principal amount of the debentures, \$32 thereof may be applied to the purchase of and converted into:

(i) Three shares before May 16, 1973, or

(ii) Two shares after May 15, 1973 and before May 1, 1975

Holders resident in Alberta of unconverted debentures may require Sun Oil Company Limited to purchase, before April 1, 1975, their debentures at par plus accrued and unpaid interest.

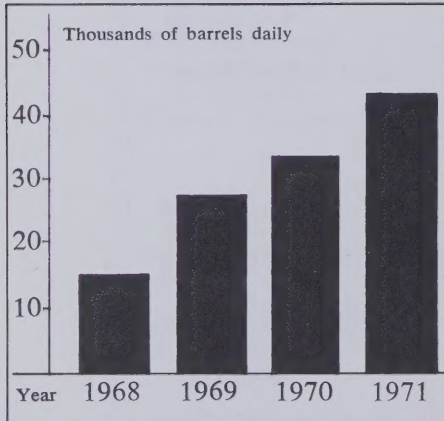
**(b) 5¾% notes due July 1, 1991:**

The terms of the 5¾% notes require annual prepayments on July 1 of U.S. \$2,000,000. The company is permitted to make optional additional annual prepayments of up to U.S. \$2,000,000 commencing July 1, 1976 without premium. Prepayments in excess of the foregoing may in certain circumstances be made at 105.75% to June 30, 1976 and at reducing percentages thereafter.

**6. Share capital****(a) Preferred shares:**

On June 15, 1971, 100,000 7% Non-Cumulative Redeemable Fourth Preferred Shares, Series A of \$100 par value each, which were subscribed for in 1970, were issued to Sun Oil Company for an aggregate cash consideration of

7



Average Daily Production  
Synthetic Crude Oil — 1968 to 1971

\$10,000,000, of which \$5,300,000 was received in 1970 and \$4,700,000 in 1971.

On December 29, 1971 a further 100,000 7% Non-Cumulative Redeemable Fourth Preferred Shares, Series A of \$100 par value each, were issued to Sun Oil Company for an aggregate cash consideration of \$10,000,000.

(b) Common shares:

During the year thirty shares were issued upon the partial conversion of certain of the 6% unsecured debentures (Alberta issue). 364,134 shares are reserved for possible issuance in future upon the partial conversion of the remaining debentures. A further 7,500 shares are reserved for possible issuance at \$3 per share under an option granted to a director exercisable subject to certain terms and conditions on or before June 29, 1973.

7. *Commitments and contingent liabilities*

(a) The company is a party to an agreement with Sun Oil Company Limited and Abasand Oils Limited involving the sublease of Bituminous Sands Lease No. 86 (approximately 4,500 acres) in respect of which the company is operating its plant. Lease No. 86 runs for a term of twenty-one years from June 1, 1966 renewable for further terms each of twenty-one years so long as the plant is in operation and subject to such terms and conditions as may be prescribed at the time renewal is granted. The annual rental is \$1 per acre. Under this agreement the company has also assumed an indebtedness to the Government of Canada of \$1,802,107 in respect of certain wartime expenditures in the Athabasca Tar Sands area. Principal payments on this debt have been deferred on an interest free basis until 1978. As the company is hopeful of obtaining relief from this debt, no provision for this amount has been recorded in the accounts of the company.

(b) In addition to crown royalties payable on production, the company is obligated to pay Sun Oil Company Limited and Abasand Oils Limited (under the provisions of the sublease agreement referred to in (a) above) a basic royalty of 10¢ per barrel of bitumen extracted or recovered from Bituminous Sands from the leased land, together with additional royalties to Sun and Abasand in respect of synthetic crude oil under certain circumstances, and subject to a 50% increase in both royalties after the company's cash flow has equalled its total initial investment. As from April 1, 1970, Abasand agreed to waive 50% of its share of the royalties for three years, subject to earlier termination at Abasand's option at March 31, 1972, and Sun agreed to waive 100% of its share of the royalties until the earlier of the elimination of the company's deficit account or a determination that the financial results from the company's operations are satisfactory. In 1970 the Government of Alberta also agreed to the remission of 50% of the crown royalties payable by the company for a three year period beginning April 1, 1970.

(c) Under the provisions of the sale agreements covering the sale of housing units to employees, the company has undertaken, in the event of employee termination within ten or twelve years of the date of the sale agreement, to repurchase the employee's housing unit by refunding designated percentages of the principal payments received. The aggregate amount subject to such repurchase commitments at December 31, 1971 was approximately \$404,000.

(d) The company is a party to long term agreements with Sun Oil Company Limited and with Shell Canada Limited pertaining to the sale of synthetic crude oil.

(e) The company's unfunded past service pension liability at December 31, 1971 is estimated at approximately \$390,000. This amount is being funded and charged to income over a period of eighteen years.

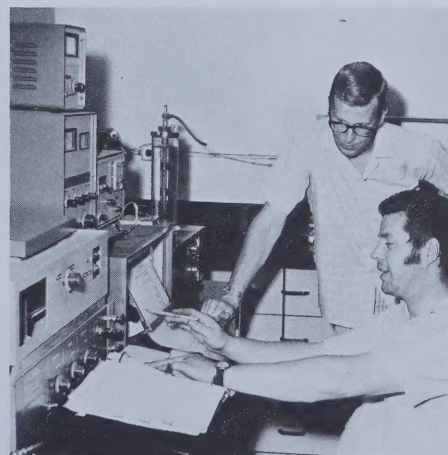
8. *Directors and officers*

Twelve persons were directors of the company during 1971, only certain of whom were paid as such, and their remuneration aggregated \$18,000. Thirteen persons were officers during 1971, only certain of whom were paid as such, and their remuneration aggregated \$115,131. Nine such officers were also directors.

9. *Calculation of net loss per common share*

The net loss per common share is calculated using the weighted average method for shares issued during the year. No adjustment is made in the calculation for dividends on outstanding preferred shares as dividends on these shares are non-cumulative and none have been declared or paid to date.

8



Technicians in laboratory take chromatograph reading.

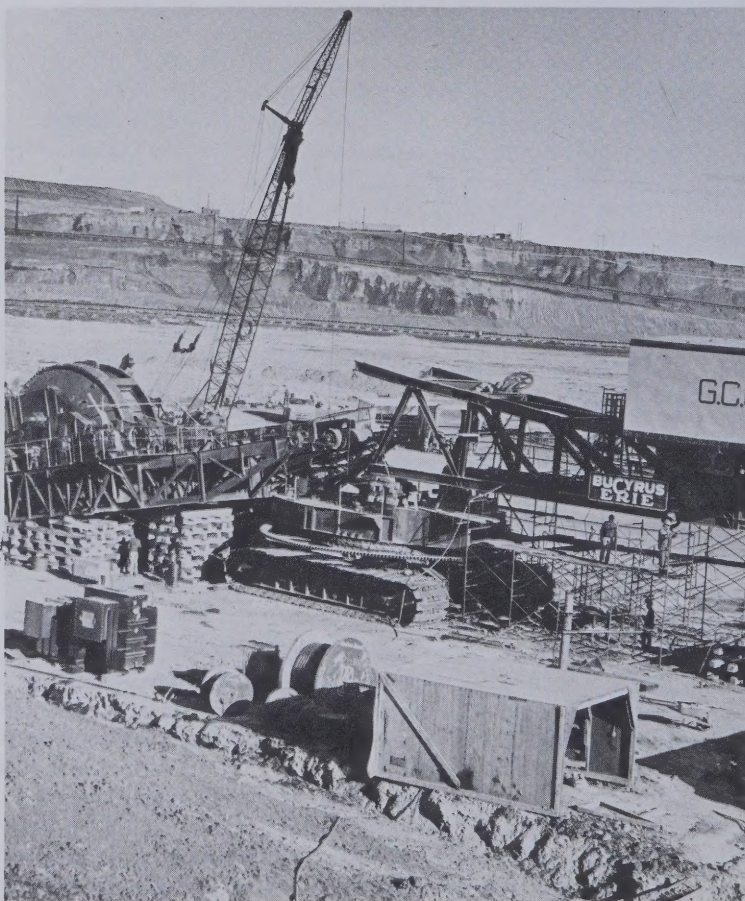
*Front end loader fills new  
Wabco truck.*



9



*New Clearwater subdivision  
features 107 single family dwellings  
and 16 apartment-type  
townhouses.*



*Bucyrus Erie bucketwheel is  
assembled. New wheel is now  
operational.*

*Great Canadian Oil Sands Limited*



# 10

**Head office**

85 Bloor Street East  
Toronto 5, Ontario

**Transfer agent and registrar**

The Canada Trust Company  
110 Yonge Street, Toronto 1, Ontario  
10150 100th Street, Edmonton, Alberta  
528 8th Avenue S.W., Calgary, Alberta

**Solicitors**

Tilley, Carson & Findlay  
Toronto, Ontario

**Annual meeting**

The Annual Meeting of Shareholders  
will be held in the Quebec Room,  
The Royal York Hotel, 100 Front  
Street West, Toronto, Ontario at  
10.30 a.m. (Toronto time) on  
Wednesday, April 5, 1972.

*Grass has been planted on sides  
of tailings dykes to improve  
their appearance; 35 acres have  
now been planted.*

